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ORIGINAL

9 | UNITED STATES DISTRICT COURT

10 | CENTRAL DISTRICT OF CALIFORNIA

11 LAWRENCE O'CONNOR, et al.,	Case No. CV 97-1554 ABC (RCx)
12 Plaintiffs,	**DECLARATION OF JAMES A.**
13 vs.	**CHALMERS, Ph.D., IN SUPPORT OF DEFENDANTS' OPPOSITION TO PLAINTIFFS' RENEWED MOTION FOR**
14 BOEING NORTH AMERICAN, INC., et al.,	**CLASS CERTIFICATION**
15 Defendants.	Hearing Date: July 13, 1998
16	Time: 9:30 a.m.
	Courtroom: Hon. Audrey B. Collins

17 |

18 | I, James A. Chalmers, Ph.D., say:

19 |

20 | 1.   I previously submitted a Declaration in Support of Defendants'

21 | Opposition to Plaintiffs' Motion for Class Certification, a true and correct copy of which

22 | Declaration is marked Exhibit A and attached hereto. I have reviewed the Declaration

23 | of John D. Radke in Support of Plaintiffs' Motion for Class Certification.

24 |

25 | **RESIDENTIAL PROPERTY**

26 |

27 | 2.   Estimating the value of residential property requires individualized and

28 | specific analysis of the subject property. The appraisal professional relies on the

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physical inspection and analysis of relevant property characteristics to value residential property. It requires the judgment of an experienced appraiser to incorporate such factors as the condition of the property and the desirability of the neighborhood to make sound value judgments. For example, a property with a badly dilapidated roof may sell for a substantial discount relative to an identical property with a new, high-quality roof. The value of a property may also be discounted if the neighboring properties suffer from unsightly deferred maintenance. There is no practical way to incorporate this type of important information into a statistical analysis of historical sales.

3.   The process of estimating the impairment to the value of residential property is even more individualized and specific. Impairment to residential property can result from any number of unique circumstances. For example, the Northridge earthquake caused severe structural damage to many residential properties in 1994. However, not all properties were similarly damaged. Of two identical properties side-by-side, one may have been leveled while the other was unaffected. Insurance companies, using statistical analysis or other methods, could make generalizations about the location, type, and magnitude of likely claims; yet, they would never pay claims absent physical inspection of each property.

4.   Statistical analysis of group data can be useful in studying and making gross generalizations about residential property values. In his Declaration, Prof. Radke proposes the use of statistical analysis to study the values of property and the myriad of factors that influence those values. However, statistical analysis of group data cannot be used to predict the value of individual residential properties with any degree of reliability because of the highly individualized and property specific issues influencing value. Statistical analysis of data estimates the relationship between value and other defined characteristics. However, as mentioned previously, many relevant characteristics of residential property cannot be included in the analysis. For example,

1 the condition of properties is highly variable and will produce large errors in the

2 estimates of value for these properties.   Thus, the resulting estimate of value is

3 unreliable.

4

5 **INCOME PROPERTY**

6

7   5.   The process of estimating the value of income property is an exercise

8 which is highly individualized and property specific. It requires inspection of the subject

9 property and analysis of the income generating ability of the property. Income property

10 is usually valued in terms of the income it is capable of providing.   Residential

11 apartments, retail, office, industrial and hotel properties would all be examples of

12 property types that would be classified as income property. To determine the income

13 producing ability of a property, it is necessary to understand the property's historical

14 levels of operating income and expenses and to be able to forecast the income and

15 expenses into the future. These forecasts are highly dependent on the specifics of each

16 property and require the judgment of an experienced appraiser. Income property can

17 also be valued using the cost and sales comparison approaches to value. While often

18 used only as references for the value indicated by the income approach, the cost and

19 sales comparison approaches also require the knowledge and experience of an appraiser

20 to make judgments about the factors specific to individual properties.

21

22   6.   Prof. Radke's proposed statistical analysis has no applicability to the

23 valuation of income property. To my knowledge, no statistically-based methodology to

24 value income property has ever been developed or accepted by the appraisal profession.

25 The most important factors in any income property valuation, operating income and

26 operating expenses, must be analyzed on a property by property basis by an experienced

27 appraiser. I am not aware of any studies in the accepted body of real estate appraisal

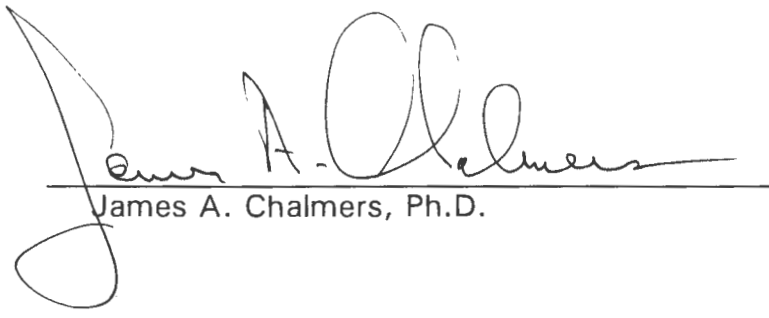28 literature regarding the use of statistical analysis to value income property.   It is my

1 | opinion that the use of a statistically-based methodology to value income property would

2 | not be acceptable under the provisions of the Uniform Standards of the Professional

3 | Appraisal Practice, the real estate appraisal industry's guiding standard. Prof. Radke's

4 | proposed statistical analysis has no applicability to the valuation of income property.

5 |

6 | **SPECIAL USE PROPERTY**

7 |

8 | .   7.   Prof. Radke's proposed statistical analysis has no applicability to the

9 | valuation of special use property. The purchase and sale of special use properties, such

10 | as municipal facilities, occurs for reasons different from those applied to residential or

11 | income properties. Estimates of value and impairment for these types of properties

12 | would require the application of methodologies quite different from those applied to

13 | other property types and quite different from anything proposed for this case in Prof.

14 | Radke's Declaration.

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1   I declare under penalty of perjury under the laws of the United States that

2   the foregoing is true and correct.

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4   DATED: May 15, 1998.

5   _____
            James A. Chalmers, Ph.D.

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